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ABSTRACT

This student activity book and teacher's guide address specific economic terms and concepts correlated to specific student learning objectives. The concepts presented are those essential to any student developing a basic understanding of economics. Each lesson follows a specific format with a basic core of information, comprehension questions, recall questions, questions for understanding of facts and principles, and analysis questions to extend the lesson. The table of contents includes lessons on: (1) "Scarcity"; (2) "Resources of Production"; (3) "Free Enterprise"; (4) "Types of Economic Systems"; (5) "The Basic Economic Questions"; (6) "Demand"; (7) "Supply"; and (8) "The Law of Supply and Demand." (EH)

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ECONOSENSE

A COMMON SENSE APPROACH TO THE STUDY OF ECONOMICS

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ECONOSENSE

A Common Sense Approach to the Study of Economics

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ECONOSENSE

LESSON 1 — SCARCITY

TO THE STUDENT

When you complete this lesson you will understand that the basic problem to be studied in economics is *scarcity.*

Concepts you will learn are: *scarcity, choice,* and *opportunity cost.*

INFORMATION BASE

When something, like oil, trees, or any other natural resource is limited we know that there is not enough of that resource to meet everyone's needs and wants. Economists believe that this is the basic problem in the study of economics. This basic problem is called scarcity. *Scarcity* can be defined as a situation in which there are unlimited wants and needs, but limited resources. In fact, we could say that if all resources, like land, were abundant forever there would be no need to have economists or study economics. However, everyone knows this is not the case.

Just think of yourself. Ask yourself this question, Do you have everything you need? You may have answered yes or no. If you answered yes, ask yourself another question, Do you have everything you want? More than likely your answer is no. Why? Mainly because you do not have enough resources (money) to buy everything you want. We would say then that your money resource is scarce. Lack of sufficient money to buy everything you want is a basic problem for you as an individual. Therefore, you are required to make *choices.* Nations worldwide also have a similar problem. For example, one nation may not have sufficient sources of energy, like oil. We could say this nation's scarce resource was oil. This nation, just as an individual, must decide how best to use this scarce resource. The nation must make choices. It is the choices that nations make that determine their economic policy.

DO YOU REMEMBER?

Answer the following questions based on the information you have just read.

1. The basic problem in economics is _____6_____.

DO YOU REMEMBER? (cont.)

2. Scarcity can be defined as _____ wants and needs,

   but _____ resources.

3. If you do not have enough money to buy everything you want, your money

   resources are _____.

4. Not only do individuals have a scarcity problem, but so do _____.

5. If a nation was lacking in energy resources like oil, we could say the choices that the nation make regarding the use of oil would be based on their

   _____ _____.

UNDERSTANDING FACTS AND PRINCIPLES

John just had a birthday and received $50.00 from his relatives. His parents indicated that they would add an additional $50.00, giving John a total of $100.00. John has always enjoyed music, and had hoped to be able to buy a stereo component system, but he knows $100.00 is not enough money for the system he really wants. Based on what you know about John and the things he wants, list at least five alternatives or choices for his $100.00.

1. _____

2. _____

3. _____

4. _____

5. _____

APPLYING AND ANALYZING PARTS

Choices require giving up something in order to take advantage of something else. Suppose you had $10.00 and went shopping. During your shopping trip you found a bracelet and a popular record album you wanted. The bracelet cost $7.95 + tax, and the record album was on sale for $6.99 + tax. Only having $10.00 was a problem because you knew you couldn't afford both. Your choice was the record album. You gave up the possibility of buying the bracelet at this time. In economic terms the item you gave up is known as your *opportunity cost.* In this example the opportunity cost was the bracelet.

Using the example of John and his $100.00 found in the section, **Understanding Facts and Principles,** make a choice for John's use of the $100.00, and explain what his opportunity cost is and why it is labeled as a cost.

DRAWING RELATIONSHIPS

Thinking about the community in which you live — develop a list of some items or resources that are scarce. If you do not know of anything that is scarce, consult with your parents or research this question in the library. After you have given some thought to these scarce items, explain the choices that are available to your community for the use of that scarce resource. Explain the decisions your local decision makers choose to make and explain the opportunity costs involved.

LESSON 2 — RESOURCES OF PRODUCTION

TO THE STUDENT

When you complete this lesson you will be able to identify and define the *resources (factors) of production.*

Concepts you will learn are: *resources, land, labor, capital, entrepreneurial skill,* and *technology.*

INFORMATION BASE

In order to understand economics, you must understand that economics is the study of how to use scarce resources to best meet the needs and wants of a society or nation. In order to understand this definition you must understand just exactly what economists mean by the term *resources. Resources* are those ingredients that are needed or used to make final goods or services used by a society or nation. More precisely, these resources or factors of production are labeled land, labor, capital, entrepreneurial skills, and technology.

Land is categorized as natural resources, such as trees, coal, and oil. *Labor* is defined as human input utilized to produce a product. *Capital,* as a resource, is the machinery or buildings used to make a final product. *Entrepreneurial skills* are the ways in which managers use the land, labor, and capital in producing a finished product. *Technology* is the body of knowledge that provides ways of reaching desired goals of production.

DO YOU REMEMBER?

Answer the following questions based on the information you have just read.

1. _____ are the ingredients used to make products.

2. The resources of production are _____,

   _____, _____,

   _____, and 10 _____.

LESSON 2 — RESOURCES OF PRODUCTION

DO YOU REMEMBER? (cont.)

3. Land can also be called _____ _____.

4. Labor is defined as _____ _____ used to produce a product.

5. _____ is the machinery or buildings use to make a final product.

6. _____ _____ are the ways in which managers use the land, labor, and capital in producing a finished product.

7. _____ is a body of knowledge used to meet desired goals of production.

UNDERSTANDING FACTS AND PRINCIPLES

In the left hand column will be an economic term that relates to the factors of production. In the right hand column there will be four examples suggested, only one will be a correct example of that term. Underline the correct example.

Resources	paper bag trees haircut socks
Labor	coal from a mine in Virginia Mr. Jones driving a school bus The United Auto Workers Union the tractor used on a farm

UNDERSTANDING FACTS AND PRINCIPLES (Cont.)

Capital	typewriter house topsoil air
Entrepreneurial Skills	writing a poem farming 80 acres of land managing a bakery selling clothes in a major department store
Technology	one million dollars a word processor real estate in Hawaii teachers

APPLYING AND ANALYZING THE PARTS

Everyone knows that Henry Ford was instrumental in developing the automobile industry into the big business it is today. However, analyzing the resources that make the industry such a success may be something very few students have done. In the space provided, using the automobile industry as the example, separate the final product into its component parts. It may be necessary for you to do library research to complete this problem.

THE FINAL PRODUCT

THE 19 _____

_____

fill in the name of your favorite car

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APPLYING AND ANALYZING THE PARTS (cont.)

Component Parts (Resources)

Land — natural resources used in auto production

Labor

Capital

Entrepreneurial Skills

APPLYING AND ANALYZING THE PARTS (cont.)

Technology _____

_____

_____

_____

DRAWING RELATIONSHIPS

Recently your school has had a problem. Litter has been collecting everywhere (in the halls, on the stairways, and all over the grounds of the school). The student council, of which you are a member, has been given the opportunity to formulate a plan to eliminate this problem. Utilizing all the resources of production, design a plan that can be relied upon to supply the necessary talents and materials to solve this dilemma.

_____

_____

_____

_____

_____

_____

_____

_____

_____

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LESSON 3 — FREE ENTERPRISE

TO THE STUDENT

When you complete this lesson you will have developed an understanding of the Free Enterprise System. You will define the Free Enterprise System *(Capitalism)* as an economic system in which the resources *(factors)* of production are individually owned and controlled. You will understand that this system utilizes individual choices operating through the market system, a profit motive, and competitive prices to determine how resources are to be used.

Concepts you will learn are: *Capitalism*, *private ownership*, *economic goals*, *competition*, *profit*, *economic freedom*, and *economic efficiency*.

INFORMATION BASE

The free enterprise or *Capitalistic Economic System* is a complex system of parts forming one unit. The concept of free enterprise indicates that the resources utilized in the production of goods and services are privately owned and operated. *Private ownership* indicates that individuals have the right to own and control economic goods and resources. Private ownership and private control of business insure economic freedom — one of the most important elements of a capitalistic economy. *Economic freedom* determines the extent to which an individual, business, or government can make basic economic decisions. Besides economic freedom, citizens in a Free Enterprise System enjoy freedom of consumer choice and job choice. These freedoms are examples of the *economic goals* of opportunity, equality, and justice in a capitalistic society.

In a Free Enterprise System the price of any item is generally set by demand, and supply of goods by buyers and sellers, respectively. This interaction of buyer and seller encourages *competition*. Competing sellers attempt to win buyers to their goods and services through many different means, including price.

Generally speaking, economic decision-making involving the use of resources is determined by profit. *Profit* can be defined as money remaining after all business costs, expenses, and taxes. Profit is actually the reward for taking risk in business. The profit motive directs the Capitalist economy to another of it's goals — efficiency. *Efficiency* can be defined as maximum utilization of the resources of production for the benefit of society.

LESSON 3 — FREE ENTERPRISE

DO YOU REMEMBER?

1. Price, in a free enterprise system, is generally set by _____ and _____ of goods by buyers and sellers.

2. _____ encourages sellers to lower prices in order to attract buyers.

3. _____ can be defined as money remaining after all business costs, expenses, and taxes.

4. Profit is actually the _____ for taking the risk of going into business.

5. Three economic goals of a capitalistic society are _____, _____, and _____.

6. In a Free Enterprise System, private ownership of the resources of production insures _____ _____.

7. Private ownership of the resources of production means that _____ rather than the government own the land, labor, and capital necessary to make products or perform services.

8. _____ can be defined as maximum utilization of the resources of production.

DO YOU REMEMBER? (Cont.)

9. Making a profit, or the profit motive, tends to make individual business strive to be more_____.

10. Economic decision-making, how to use scarce resources, is sometimes determined by the amount of money a business will make, or _____.

UNDERSTANDING FACTS AND PRINCIPLES

1. Economic freedom is insured in the Free Enterprise System through private ownership and private control of business. What does this statement mean to you?

_____

_____

_____

_____

2. Based on your reading and understanding of Capitalism, explain why you think this system has also been named the Free Enterprise System.

_____

_____

_____

_____

UNDERSTANDING FACTS AND PRINCIPLES (cont)

3. Buyers and sellers are always interacting in the Free Enterprise System. Price is one thing that attracts buyers to certain sellers. Name at least two other means by which sellers can encourage buyers to choose their product.

4. Competition among sellers is very important in the Free Enterprise System because it keeps the price of goods and services affordable for most consumers and it offers the consumer choices. However, in some markets there is no competition. Can you name at least one example of a market or product where there is no competition and therefore little consumer choice?

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UNDERSTANDING FACTS AND PRINCIPLES (cont.)

5. If economic freedom, competition, and other characteristics of the Free Enterprise System were not important values to our society, what might be the consequences for the consumer?

APPLYING AND ANALYZING THE PARTS

The Free Enterprise System is comprised of many elements, several of which are identified in the **Information Base.** Organize those typical capitalistic elements in a chart and cite a practical example for our economic system that demonstrates or shows this element.

EXAMPLE

Element of Capitalism	Example
Competition	Aerobics is a very popular method of exercise. Many shoe manufacturers ignored the market for aerobic shoes until recently. However, as soon as one major sporting shoe manufacturer entered the market, all sporting shoe manufacturers jumped on the bandwagon.

APPLYING AND ANALYZING THE PARTS (Cont.)

Element of Capitalism	Example

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DRAWING RELATIONSHIPS

Communism is an economic system that can be said to be the opposite of Capitalism. Using the chart developed in the previous section **Applying and Analyzing the Parts,** develop a list of characters or elements that would be identifiable with communism. Once that list is developed, formulate examples of these characteristics as they exist in communist countries. This may require research on your part.

Element of Communism	Example

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LESSON 4 — TYPES OF ECONOMIC SYSTEMS

TO THE STUDENT

When you complete this lesson you will be able to identify and understand the three types of economic systems: *traditional*, *command*, and *market*.

Concepts you will learn are: *traditional economy*, *command economy*, *market economy*, and *central planning*.

INFORMATION BASE

All economic systems are ways of allocating or distributing scarce resources and are usually divided into three types — traditional, command, or market. In fact, amazing as this may sound, throughout history all societies have fit into these categories. One fact that should be noted is that according to the definition no current economic system is pure or the ideal form of these systems. Modern economic systems have characteristics of all the types mentioned above. However, characteristics of a particular system seem to be predominant and thus a system is classified.

A *traditional economic system* is one that is ruled by custom and tradition. This type of a system is generally found in a primitive, agricultural society. Custom tells the people when to plant and harvest, and how to do it. Modern technology is usually absent. People tend to do things the same way their ancestors did. A traditional society has limited expectations, which are generally easy to meet. Everyone in a traditional economy has a specific role to fulfill. Generally there is little conflict within this type of economy, but any type of change within the system causes difficulty. Third world nations, such as Ethiopia may be considered traditional.

LESSON 4 — TYPES OF ECONOMIC SYSTEMS

INFORMATION BASE (Cont.)

The second type of an economic system is a *command system. Central planning* is the key phrase in this type of system. Generally, the government plans all aspects of the economy, from allocation of resources to who gets the final products of production. Consumers wishes are usually not taken into consideration. The achievements of the system depend largely on the wisdom of the central planners. Obviously, this system is not compatible with personal freedom. The Soviet Union is an example of this type of economic system.

Finally, there is the *market system.* This is the newest of the economic systems and perhaps the most complex. If freedom is one of the elements missing in a command economy it is certainly one of the strongest elements in a market system. Every time each individual makes a purchase of any item they are casting their economic vote. They are telling the market the kinds of products to produce. Thus resources are allocated to meet the demands of these individual consumers. If the command system is the best example of centralized planning, the market system is the best example of decentralized planning.

If a business is not competitive in its pricing or does not produce an item consumers think valuable, then the business will not be successful. The United States is a good example of a market economy.

LESSON 4 — TYPES OF ECONOMIC SYSTEMS

DO YOU REMEMBER?

Complete the crossword puzzle using the clues provided:

ACROSS

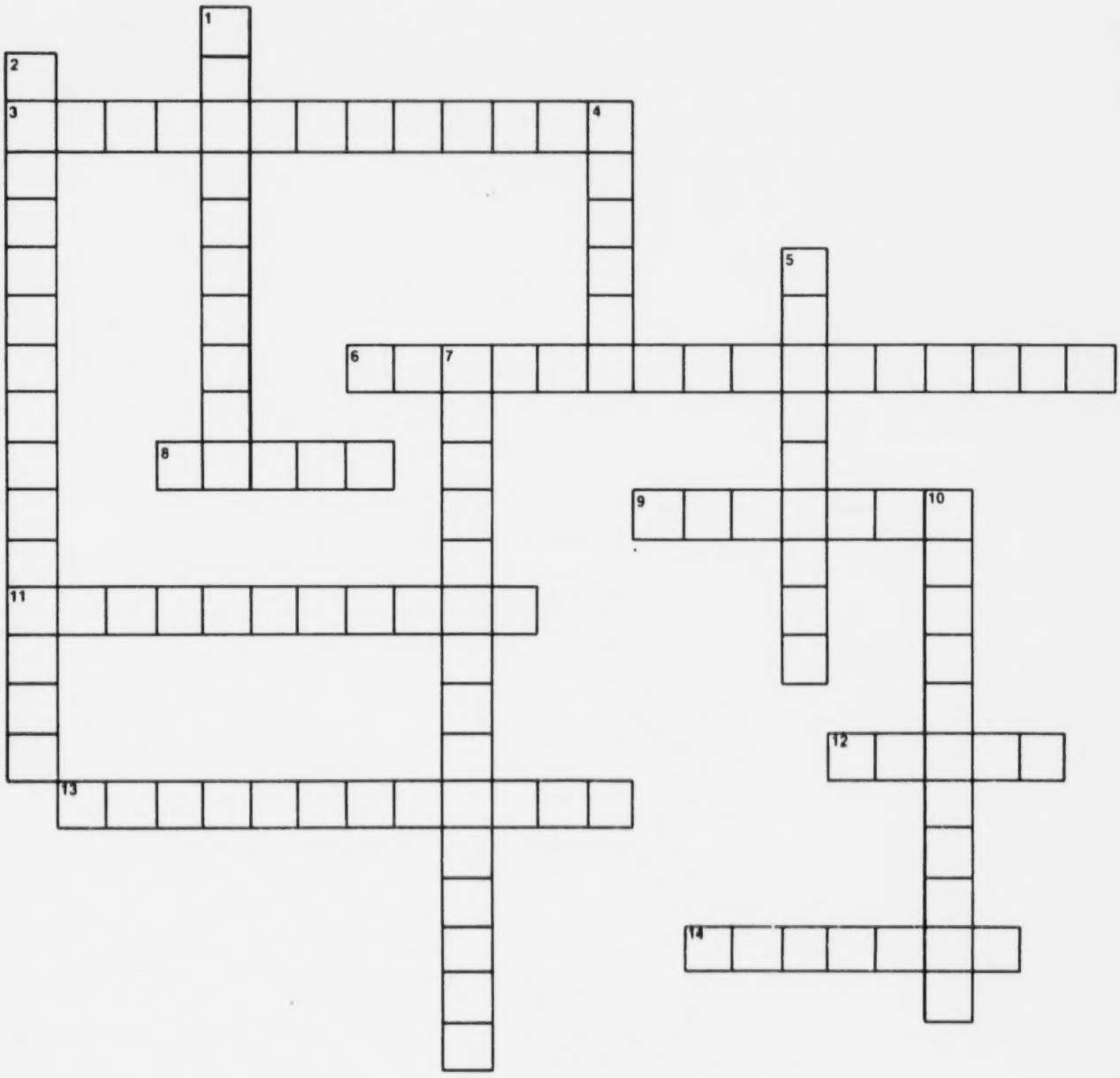
3. Government generally makes all the decisions in this economy.
6. The opposite of centralization.
8. No economic system today exists in the pure or _____ form.
9. An economy is traditional if its ways of allocating resources remain the same and follow age-old _____ and traditions.
11. In this system, there is usually an absence of technology.
12. In a market system, individuals cast their economic _____ every time they make a purchase.
13. A good example of a market economic system is the _____ _____.
14. One of the strongest elements in a market system is _____.

DOWN

1. If characteristics of a particular system seem to be predominant, that is how the system is _____.
2. Ways of allocating scarce resources are called _____.
4. The newest and most complex economy is the _____ system.
5. Traditional economic systems usually exist in _____, agricultural societies.
7. All decision making is done by one group.
10. A good example of a command economy is found in the _____ _____.

LESSON 4 — TYPES OF ECONOMIC SYSTEMS

DO YOU REMEMBER? (Cont.)



LESSON 4 — TYPES OF ECONOMIC SYSTEMS

UNDERSTANDING FACTS AND PRINCIPLES

Fill in the chart showing the characteristics of the three economic systems — TRADITIONAL, COMMAND, and MARKET and give an example of each.

TRADITIONAL

CHARACTERISTICS	EXAMPLE

COMMAND

CHARACTERISTICS	EXAMPLE

MARKET

CHARACTERISTICS	EXAMPLE

LESSON 4 — TYPES OF ECONOMIC SYSTEMS

APPLYING AND ANALYZING THE PARTS

The United States and the Soviet Union have the same goal for their countries — National Defense. Based on the information given in the **Information Base** section and realizing that no country has a pure or idealistic form of the economic systems described in the **Information Base,** compare and contrast the methods or means each system might use to attain the goal of National Defense.

DRAWING RELATIONSHIPS

As was noted in **Applying and Analyzing the Parts,** National Defense is a common goal of the United States and the Soviet Union. Both, however, realize the danger of nuclear weapons buildup. Repeatedly these two nations have met in an attempt to work out some agreement regarding this buildup. So far, they have been unsuccessful. Based on the information you have gained about their economic systems, compare the relationship between their economic systems and their political systems, and formulate several reasons why agreement on this issue and others is so difficult.

ECONOSENSE

LESSON 5 — THE BASIC ECONOMIC QUESTIONS

TO THE STUDENT

When you complete this lesson you will be able to name and understand the meaning of the three basic questions that all economic systems must try to answer: *What is to be produced? How is it to be produced?* and *To whom will it be distributed?*

The concept you will learn is: A country's *economic policy* is based on answers to the three basic economic questions, *allocation of resources.*

INFORMATION BASE

The problem of scarcity, basic to all economic systems — regardless of type — requires all economic systems to develop a plan or *policy* for using its scarce resources. Economic systems are required to answer three basic questions to determine their economic policy. The basic economic questions are: What is to be produced? How is it to be produced? and To whom will it be distributed?

What is to be produced? This question means what mix of goods and services meet the needs of society. If an economic system is a command system, this question might be answered by saying whatever mix of productive resources the government thinks best meets the needs of that society and its goals. In a market economy, the answer to that question will be determined basically by individual consumer tastes and preferences. In a market system these demands may change with time. Productive resource shifts will take place to accommodate these changes. In a traditional economy, the question may be answered by merely stating that whatever our ancestors made is what we will make.

The second question is — *How is it to be produced?* This question indicates technology, whatever the state of it may be. The question is also one of economics. How do we best mix or organize the economy in order to get maximum output with limited resources — choosing the correct techniques of production in order to conserve those scarce resources. Again the three economic systems respond differently to this question. A command economy organizes its resources as the central authority sees fit — no questions asked. A market economy organizes its system to be profitable, usually this implies that it attempts to be efficient — always seeking new and better methods of technology and organization. A traditional economy answers this question simply stating that we will organize our economy the way we have always organized it. Generally no new ways of doing things are created in this system.

LESSON 5 — THE BASIC ECONOMIC QUESTIONS

INFORMATION BASE (Cont.)

The third question — *To whom will it be distributed?* means what set of rules exist for providing goods and services to the population. In a command system, consumer goods output is restricted. Resources have been allocated or distributed to other goods and services the central planners feel are more in keeping with their political goals. Obviously, the central authority determines the system for distributing goods and services. In a market economy, individuals through their purchasing power determine the means of distribution. In a traditional economy, distribution remains the same as it has been for centuries — usually with farmers using their own goods for survival.

DO YOU REMEMBER?

Word Search

Find the following economic terms in the puzzle and draw a line around them. The words and terms can be found by reading left to right, right to left, top to bottom, bottom to top, and diagonally.

Scarcity	Market	Distribution	Tradition
Basic Questions	Individual	Allocation	Goods
What to produce	Consumer	Technology	Services
Central planners	For whom to produce	Organization	Goals
How to produce		Profit	

C	O	N	S	U	M	E	R	A	S	E	R	V	I	C	E	S	S	L	M	E	T	H	A	D
E	A	R	I	N	G	A	L	L	O	C	A	R	N	I	V	E	R	O	F	I	R	I	T	I
N	T	O	G	L	A	D	R	O	W	H	A	T	T	O	P	R	O	D	U	C	E	M	E	S
T	S	A	N	A	O	O	D	K	S	E	R	R	V	I	Y	G	O	L	O	N	H	C	E	T
R	E	M	A	U	N	T	R	A	E	G	O	M	C	A	R	T	R	A	D	I	T	A	R	R
A	T	O	T	D	A	I	N	A	M	T	I	R	D	I	S	T	R	I	B	U	T	I	O	I
L	M	N	U	I	L	I	Z	O	O	M	S	N	O	I	T	S	E	U	Q	C	I	S	A	B
P	N	E	R	V	S	O	M	A	T	O	A	D	O	W	N	Y	E	A	R	O	V	E	N	U
L	A	B	O	I	R	N	O	T	T	R	A	D	I	T	I	O	N	S	A	N	D	N	O	T
A	L	W	A	D	T	O	P	S	M	I	N	A	L	O	R	A	M	A	L	G	A	D	N	I
N	A	M	E	N	L	O	A	D	P	R	O	F	I	T	B	L	A	G	T	O	I	V	G	O
N	E	T	S	I	G	N	R	O	A	O	A	N	O	W	A	L	L	O	C	A	T	I	O	N
E	A	R	T	O	P	O	T	E	C	U	D	O	R	P	O	T	W	O	H	B	A	S	A	G
R	E	T	J	L	M	C	A	U	O	P	M	I	H	R	D	A	Q	D	V	C	O	P	L	S
S	F	O	R	W	H	O	M	T	O	P	R	O	D	U	C	E	L	S	O	O	D	A	S	T

LESSON 5 — THE BASIC ECONOMIC QUESTIONS

UNDERSTANDING FACTS AND PRINCIPLES

Based on the following headline, explain how you think the economy of a command, traditional, and market economy would respond. Answers should be brief and based on the information found in the **Information Base** section.

FARMERS SUFFER CROP DISASTER
80% OF CORN CROP DESTROYED

COMMAND _____

_____

_____

_____

_____

TRADITIONAL _____

_____

_____

_____

_____

MARKET _____

_____

_____

_____

_____

30

LESSON 5 — THE BASIC ECONOMIC QUESTIONS

APPLYING AND ANALYZING THE PARTS

U S S R	U S
COMMAND	MARKET

Listed below are several countries from around the world and a brief description of their economic system. Place each country on the above line. Base your placement on the criteria that the majority of the characteristics are either closer to those of the U.S. or to the characteristics of the U.S.S.R. as defined in the **Information Base.**

ALBANIA — Nation with the greatest amount of government controls of the economy.

CHINA — Great leap forward, the government attempted to expand the nation's industry rapidly. Afterwards agricultural development was stressed. Has begun experimenting with certain capitalistic ideas, such as competition and private ownership of small businesses.

TAIWAN — Nation with the least amount of government controls on the economy.

GREAT BRITAIN — Most recently reduced taxes somewhat and decreased regulation of business. However, still has free national Health Plan and the industries of steel, coal, and railroad are owned by the government.

SWEDEN — Welfare State, guaranteed vacation for all workers and direct payments to all families with children under 16. Government owns some of the major factors of production, some central planning and high income tax.

LESSON 5 — THE BASIC ECONOMIC QUESTIONS

DRAWING RELATIONSHIPS

It should be obvious from the information you read that no country has a pure economic system. Most countries have elements of both a command and market economy, consequently most economic systems are *mixed.* However, all countries seem to lean more towards one than the other. Since systems are mixed, think about the United States' economic system and develop examples of how the U.S. system sometimes has characteristics of a command system.

Examples:

LESSON 6 — DEMAND

TO THE STUDENT

When you complete this lesson you will be able to define *demand* as the amount of goods and services that buyers are willing to buy at different prices in a given market at a given time.

Concepts you will learn are: *demand, marketplace, price, the law of demand, marginal utility, change in quantity demanded, change in demand, complementary,* and *substitute goods.*

INFORMATION BASE

Demand is the word frequently used by citizens of a market economy. The reason for its frequent use is due to the fact that in this type of economy, consumers (buyers) and suppliers (sellers) determine how resources are used by their interaction in a *marketplace.* The interaction of buyers and sellers determines how resources are used. Their interaction brings about a certain *price* — or what amount of money consumers are willing to spend and producers are willing to accept for their product. This price then determines the distribution of goods. Whoever is able to pay the price receives the goods or service.

Demand, as frequently used, tends to mean the strong desire to buy something (willingness), and also the ability. In economic terms, *demand* is measured by how much of an item someone buys at different prices. *Demand* must be translated into an actual purchase.

If, for example, pizza sold for $1.00 per slice, buyers would be willing to buy 100 slices, but if the price rose to $1.25 a slice, buyers would only buy 75 slices. The opposite is also true. As the price of pizza drops, let's say to 75¢ a slice, buyers would purchase 125 slices. If the price was lowered even more, to 50¢ a slice, buyers would buy 150 slices. Using this example we can see that if pizza rose all the way to $1.50 a slice, buyers would want much less — only 50 slices. This example of the general pattern of buyers is referred to as the law of demand.

The law of demand states that the lower the price, the more of an item (quantity) buyers are willing and able to buy. Likewise, the higher the price, the less of an item consumers are willing and able to buy.

INFORMATION BASE (Cont.)

It is easy to understand why, as prices increase, it is more difficult for a consumer to make additional purchases. They may be willing, but they are not able. Likewise, it is easy to understand why a consumer would be able to purchase more as the price dropped. What may not be quite so easy to understand is why would someone be willing to buy more and more when the price drops. The answer lies in something economists refer to as the pleasure or utility we get. The rule of pleasure in economics goes like this: The more we buy of one particular product during a specific time period, each extra one of that product brings us less pleasure. For example, suppose you love a special flavor of ice cream from a particular ice cream store. In fact, this ice cream store is the only place you can get this flavor. In the newspaper you notice that for one day only there was a special price on that flavor — cones were half their normal price. You rushed to the ice cream store and bought one cone, then another, and decided to get a third — although you really were not sure you wanted it. Your stomach was beginning to get full. Each ice cream cone brought you pleasure, but the amount of pleasure decreased with each additional cone. Economists call this *the law of diminishing marginal utility.* We may be willing to buy a few cones at first when the price drops, but our willingness decreases as our pleasure or utility decreases.

The last question we might ask about demand is, does it always remain the same for any given product? The answer is no. Demand changes. Economists have identified specific reasons for changes in demand. The reasons for changes in demand are: changes in personal tastes of consumers, changes in consumers' incomes, and changes in the price of substitute and complementary goods. *Complementary goods* are those goods that go hand in hand — like peanut butter and jelly. If the price of peanut butter goes up, less will be demanded and the same is true on the demand for the complementary good, jelly.

Substitute goods are goods that are interchangeable, like two vegetable items. Suppose the price of corn increased, consumers would likely substitute another vegetable, like carrots or green beans. In both of these examples the price of one product affects the demand for another.

A final note — economists differentiate the terms *change in demand* and *change in quantity demanded.* The secret to knowing the difference is that any change in price causes a change in quantity demanded. Any change in tastes and income of consumers or changes in the price of substitute or complementary goods cause a change in demand.

LESSON 6 — DEMAND

DO YOU REMEMBER?

Listed below are statements that are true and false. Within each numbered question three statements will be true and one false. Choose the false statement. Remember answers are based on the **Information Base.**

____ 1.

a. The words consumer and buyer are substitutes for one another.

b. The words supplier and seller are substitutes for one another.

c. Buyer and seller ignore each other in the marketplace.

d. The interaction of buyer and seller in the marketplace determines price.

____ 2.

a. Price, to some degree, determines the distribution of goods and services.

b. In economic terms, supply means the willingness to buy a good or service.

c. The law of demand says the lower the price the more of an item a buyer is willing to buy.

d. The law of demand also states that at higher prices consumers buy less of that item.

____ 3.

a. Generally, the more we buy of one item in a given period of time, the less pleasure we get from it.

b. When you buy one item and receive less pleasure each time you buy another of that item, economists refer to this as increasing utility.

c. When the price of pizza drops we are able to buy more, but we may not be willing to buy more and more due to the law of diminishing marginal utility.

d. The more we buy of one particular product over a given period of time, each extra one of that product brings us less pleasure.

DO YOU REMEMBER? (Cont.)

____ 4.

a. Demand for a product changes.

b. Personal tastes and changes in income are two reasons for a change in demand.

c. Changes in the price of substitute goods cause a change in demand for a particular good.

d. A substitute good is a good that goes hand in hand with another.

____ 5.

a. If the price of peanut butter rises or goes up, the demand for jelly will fall.

b. Substitute goods are those that are interchangeable.

c. Suppose the price of corn increased, consumers would likely substitute another vegetable.

d. As price changes, the demand remains the same.

UNDERSTANDING FACTS AND PRINCIPLES

If we took the information about pizza that was mentioned in the **Information Base,** we could convert it into a table or *demand schedule.* This schedule would show the number of units of pizza demanded at various prices and would look like the schedule below.

DEMAND SCHEDULE FOR SLICES OF PIZZA	
PRICE PER SLICE	SLICES OF PIZZA/BOUGHT PER DAY (quantity)
$1.50	50
$1.25	75
$1.00	100
.75	125
.50	150

UNDERSTAND FACTS AND PRINCIPLES (Cont.)

Use the information on the schedule to answer the following questions:

1. With all other factors remaining the same, how many slices of pizza would be bought per day at

   a. $1.00 _____

   b. $ .50 _____

   a. $1.50 _____

2. From the information on the demand schedule, what can you say about the relationship between the price of a slice of pizza and the demand?

   _____

   _____

   _____

   _____

3. Given the following information, construct a demand schedule. If the price of an ice cream cone was $1.00 — 5 million would be sold per year. If the price was $1.25, the amount of cones sold per year would be 4 million. If the price of a cone was $1.50, 3 million cones would be sold per year. If the price per cone was 75¢, the amount of ice cream cones sold would be 6 million. If the price of a cone was 50¢, 7 million cones would be sold per year.

DEMAND SCHEDULE FOR ICE CREAM CONES	
PRICE PER CONE	QUANTITY BOUGHT PER YEAR

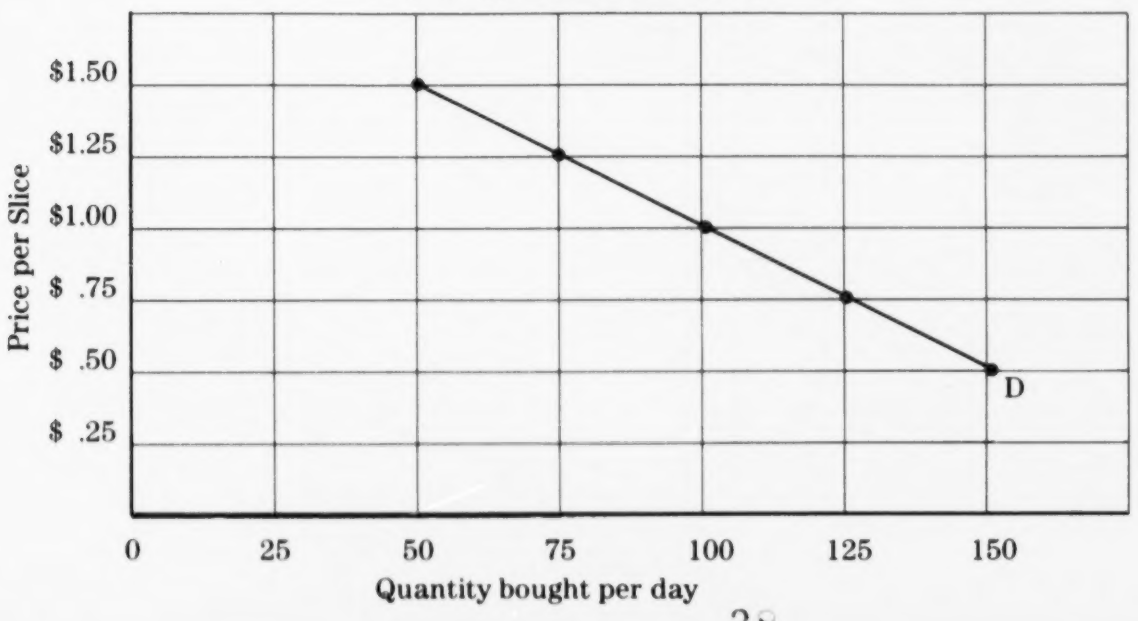
APPLYING AND ANALYZING PARTS

Information found on a demand schedule, like the one below, can be converted into a *demand curve.* A demand curve is a graph which combines prices and quantity demanded. The horizontal axis of the graph shows the quantity of goods. The vertical axis shows the price per item. Based on this information and the demand schedule, look below for the demand curve and answer the questions that follow it.

DEMAND SCHEDULE FOR SLICES OF PIZZA	
PRICES PER SLICE	QUANTITY BOUGHT PER DAY
$1.50	50
$1.25	75
$1.00	100
.75	125
.50	150

DEMAND CURVE

Quantity of Pizza Demanded

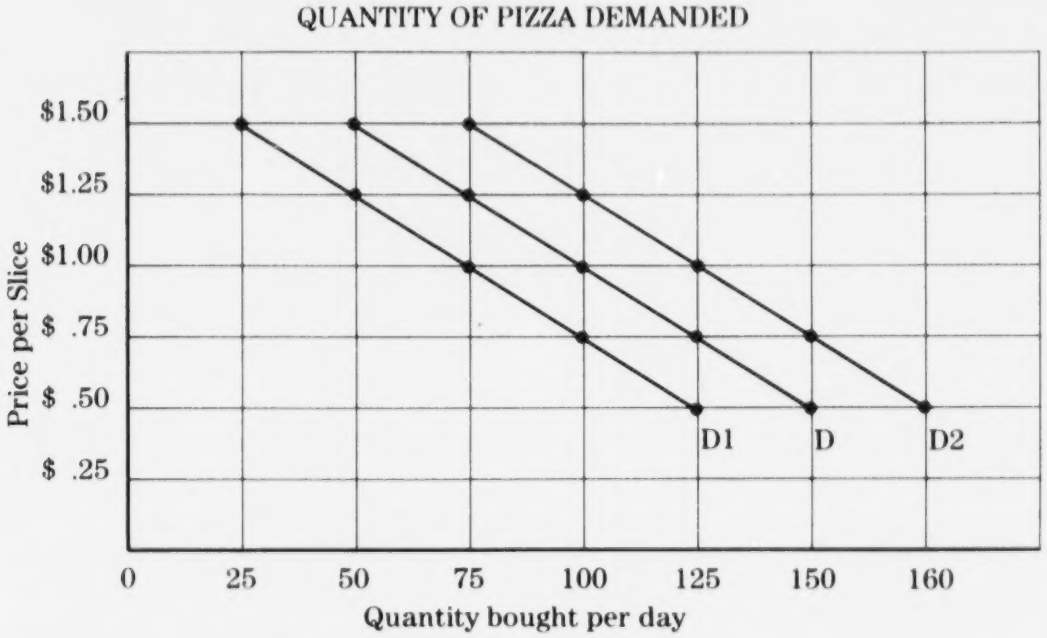


APPLYING AND ANALYZING PARTS (Cont.)

1. Based on the information on the demand curve, explain why the curve slopes downward.

2. Also, based on the demand curve and demand schedule, explain how the graph is read.

DRAWING RELATIONSHIPS



Looking at the demand curve, a change in *quantity demanded* can be seen as any movement along D. This movement is caused by a change in price. D1 shows a *decrease in demand*, not a decrease in quantity demanded. D2 shows an *increase in demand*, not an increase in quantity demanded. These changes in demand are caused by non-price determinants, like changes in personal income, changes in taste and preferences, changes in related goods, either complementary or substitute goods.

Below is a story describing a market situation. From the information given, develop a demand schedule, a demand curve, and any other curves necessary and explain any changes.

In the community of Elonimes live the Elonimesians. These people love popcorn. On every street corner there is a popcorn shop. Popcorn comes in all flavors. In fact, the cheaper the popcorn, the more the Elonimesians want. Latest statistics in Elonimes indicate that last year 5 million bags of regular popcorn were sold at $1.25 a bag, 4 million bags were sold at $1.50, and 3 million at $1.75. Also last year, 6 million bags sold at $1.00, 7 million bags sold at $.75, and 8 million bags sold at $.50. All was wonderful until the day the headlines hit the paper: POPCORN LINKED TO HEART DISEASE.

DRAWING RELATIONSHIPS (Cont.)

Things sure changed in Elonimes. Popcorn sales fell dramatically. In fact, some wonder if the day will ever return when Elonimesians will once again enjoy popcorn.

DEMAND SCHEDULE FOR BAGS OF POPCORN	
PRICE PER BAG	QUANTITY BOUGHT PER YEAR

Put demand curve and other curves here. Give an explanation for change in demand below the demand curve.

LESSON 7 — SUPPLY

TO THE STUDENT

When you complete this lesson you will be able to define *supply* as the various amounts of goods and services sellers are willing to sell at each specific price in a given market at a given time.

Concepts you will learn are: *supply, supply schedule and supply curve, law of supply, change in supply, change in quantity supplied.*

INFORMATION BASE

Supply is a term used frequently with the word *demand.* In Lesson 6 the concept of demand was discussed. Now we are going to turn our attention to *supply.* In the discussion of supply you must put aside your familiar role as consumer and now think of yourself as the producer or supplier of a good or service.

When studying demand we learned that as the price increased, the consumer bought less. This is not the case when discussing supply. The higher the price, the more of a good or service the seller is willing and able to produce or supply. This is referred to as the *law of supply.* There is a positive relationship between price and quantity supplied.

Supply refers to the various amounts of goods and services a producer is willing and able to produce and sell at specific prices over a specific period of time. It is easy to understand the law of supply if we use an example. Suppose Joe, the local manufacturer of frozen pizza, is willing to supply 100 of his cheese pizzas for $2.00 each in the neighborhood grocery store during the month of May. However, if the price falls to $1.50, Joe is only willing to supply 75 pizzas. It may be that at $1.00 per pizza, Joe wouldn't supply any pizzas.

Price is not the only determinant of supply; other factors influence the supply of a good or service. These other factors include: cost of production, number of sellers, and what the price of the good or service will be worth in the future, also known as price expectation.

The cost of production means what it costs the supplier to produce the good or service. Anything that lowers the cost of making a good or providing a service allows more of that good or service to be supplied. For example, suppose Joe, our frozen pizza manufacturer, developed a faster, better

INFORMATION BASE (Cont.)

machine for the production of frozen pizza. This advance in technology would cut the cost of production. With lower costs, Joe could supply more pizzas to the neighborhood store at the same price or maybe at a lower cost and still make a profit.

However, the opposite could be true. Suppose the wheat crop in the U.S. suffered from severe storms and there was less of this raw material available. The increase in the cost of production would cause Joe to increase his prices. These high prices would probably lower consumer demand and in turn signal a decrease in quantity produced or supplied.

Another reason for a change in supply is the number of sellers in the market. Others will see that Joe is making a good profit. This profit incentive or wanting to make money would encourage others to enter the frozen pizza market, thus increasing the supply.

Sometimes suppliers withhold some of their current supply from the market. They do this because they hope the price will increase sometime in the future. This hoping for higher prices and holding supply back causes a decrease in supply.

DO YOU REMEMBER?

Fill in the blanks based on what you have just read.

1. When we think of the term demand, we know that as prices increase,

   consumers buy _____ _____.

2. The _____ of _____ states that the more of a good or service that will be supplied, the

   _____ the price.

3. Other factors beside _____, influence the supply of a good.

DO YOU REMEMBER? (Cont.)

4. Advances in technology tend to cut the cost of production and increase the _____.

5. If the price of raw material used to produce a product increase, the price of the final product will _____. This change in price will eventually reduce consumer demand and the quantity supplied will be _____.

UNDERSTANDING THE FACTS AND PRINCIPLES

A *supply schedule* is a chart that shows how much of a good or service a producer is willing and able to supply at various prices at a specific time. Suppose we ask Joe the following question, "How many frozen pizzas would you be willing to supply if the price was $2.00 a pizza?"

Maybe Joe would reply, "At $2.00 a pizza, I would supply 100 pizzas." Next you ask him how much he would be willing to produce at $1.50 a pizza...and so on. We could put this information on a supply schedule that looks like this:

Supply Schedule for Frozen Pizzas	
PRICE PER PIZZA	QUANTITY SUPPLIED PER MONTH
$4.00	300
$3.50	250
$3.00	200
$2.50	150
$2.00	100
$1.50	50
$1.00	0

UNDERSTANDING THE FACTS AND PRINCIPLES (Cont.)

Answer these Questions:

1. How many frozen pizzas will be supplied per month at $2.00 a pizza, $4.00 a pizza, and $1.00 a pizza?

2. From the supply schedule, what is the relationship you see between price and quantity supplied?

APPLYING AND ANALYZING THE PARTS

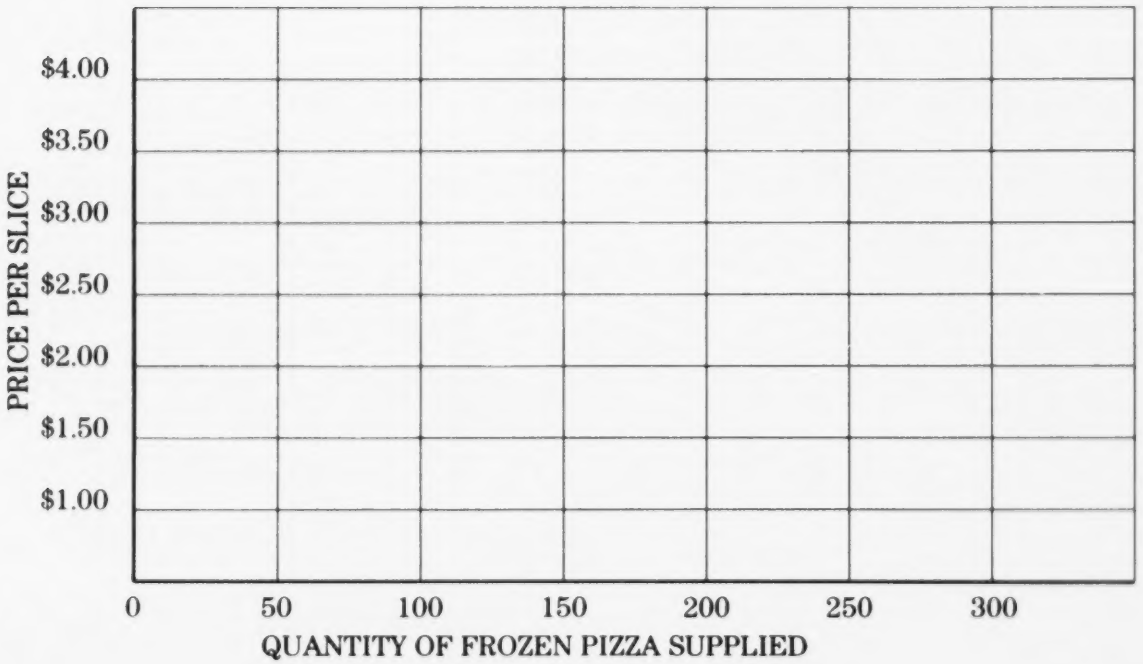
The information on the supply schedule can be converted into a graph. Just like a demand curve, it shows the combinations of prices and quantity supplied — this is called a *supply curve.* The horizontal axis shows the quantity of goods supplied. The vertical axis shows the price per item. A supply curve always slopes upward to show the direct relationships between price and quantity supplied.

Apply the information given in the supply schedule below and the information given above to the graph provided.

APPLYING AND ANALYZING THE PARTS (Cont.)

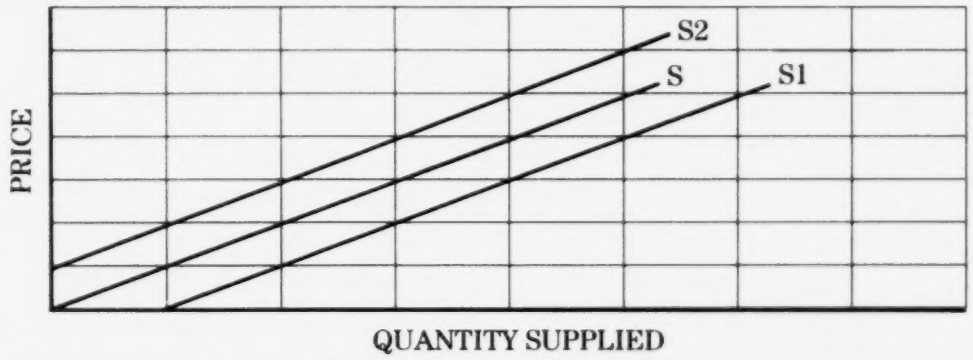
Supply Schedule for Frozen Pizzas	
PRICE PER PIZZA	QUANTITY SUPPLIED PER MONTH
$4.00	300
$3.50	250
$3.00	200
$2.50	150
$2.00	100
$1.50	50
$1.00	0

SUPPLY CURVE

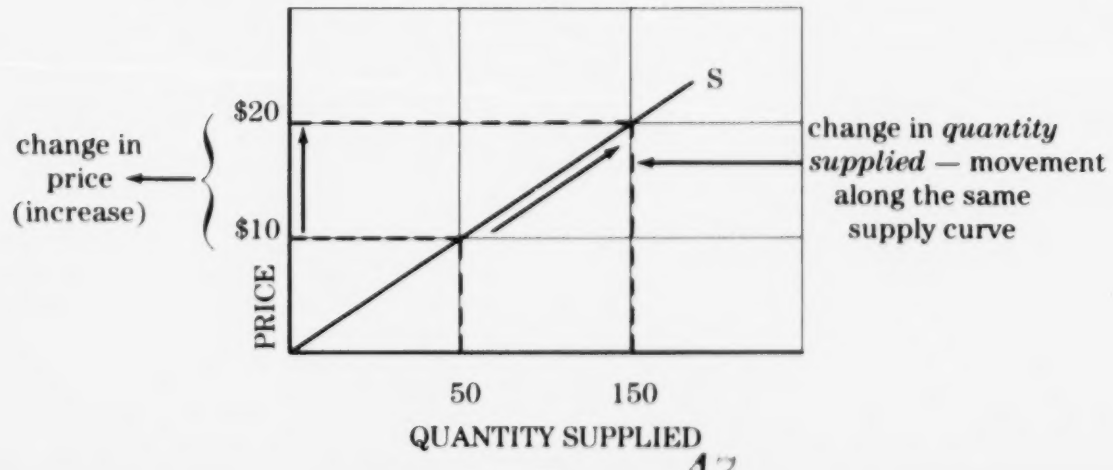


DRAWING RELATIONSHIPS

Just as there is a difference in the terms *change in demand* and *change in quantity demanded;* there is a difference in the terms *change in supply* and *change in quantity supplied.* A change in supply means that non-price reasons cause the entire supply to change at each and every price. When this happens the supply curve shifts either to the right or left. If there is an increase in supply, the supply curve moves to the right. If there is a decrease in supply, the supply curve moves to the left. The original supply curve is labeled S, the next supply curve, if it were an increase in supply due to a new advance in technology would be labeled S_1. If supply were decreased because of a natural shortage of raw materials, the next curve would be labeled S_2. The whole picture might look like this graph.



A change in quantity supplied means that as the price moves up and down, different quantities will be supplied, but there will be no new supply curve drawn. *Changes in price indicate movement along the same supply curve.* The visual representation might look like this:



DRAWING RELATIONSHIPS (Cont.)

Based on the information explained on the previous page, determine whether the following statements would cause a change in supply or a change in quantity supplied. Abbreviate a change in supply as CS, and a change in quantity supplied as CQS.

____ 1. The price of aerobic shoes increases due to increased popularity of that form of exercise.

____ 2. A new manufacturing process significantly increasing output in the production of sewing machines has recently been put into the Green Machine Company.

____ 3. Pizza is so popular that more and more individuals are getting into the business.

____ 4. The tomato crop rotted in the field, pizza producers' costs of production increase.

____ 5. Motel rooms in Toronto, have, on the average, reduced their prices from $100 per night to $75 per night.

LESSON 8 — THE LAW OF SUPPLY AND DEMAND

TO THE STUDENT

When you complete this lesson you will be able to define the *Law of Supply and Demand* as the price of a good or services increase, sellers will offer more and buyers will demand less — as price falls, sellers will offer less and buyers will demand more.

Concepts you will learn are: *The Law of Supply and Demand*, *Equilibrium Price*, *Surplus*, and *Shortage*.

INFORMATION BASE

If you have completed lessons six and seven you probably have wondered if there is a connection between supply and demand. The answer, of course, is yes. In the real world, supply and demand operate together in the marketplace. This lesson will show you just how that interaction works.

In the marketplace, supply and demand represent both consumers' and suppliers' decisions to buy and sell products. Their interaction determines the price. In order to see this more clearly, let's put supply and demand together in a supply and demand schedule and a graph which illustrates those schedules. All the same principles apply as applied when studying supply and demand separately. The schedule shows different prices at a specific period of time, as well as the quantities bought and sold at those prices. On the graph, the horizontal line will represent quantity and the vertical line will represent price. Since we have discussed pizza bought and sold in the last two lessons, let's stay with that product.

Let's imagine that Joe, the local manufacturer of frozen pizza, is willing at $2.00 each, to supply 100 cheese pizzas to the neighborhood grocery store during the month of May. At $1.50 per frozen cheese pizza, Joe is only willing to supply 75. At $1.00 per pizza Joe says he is not interested in supplying frozen pizzas and may look to converting his plant to manufacturing frozen fruit pies. But, if Joe could sell his pizzas at $2.50 he might be willing to supply 150 frozen pizzas. And, as a matter of fact, the higher the price he can get for pizza the more he is willing to supply.

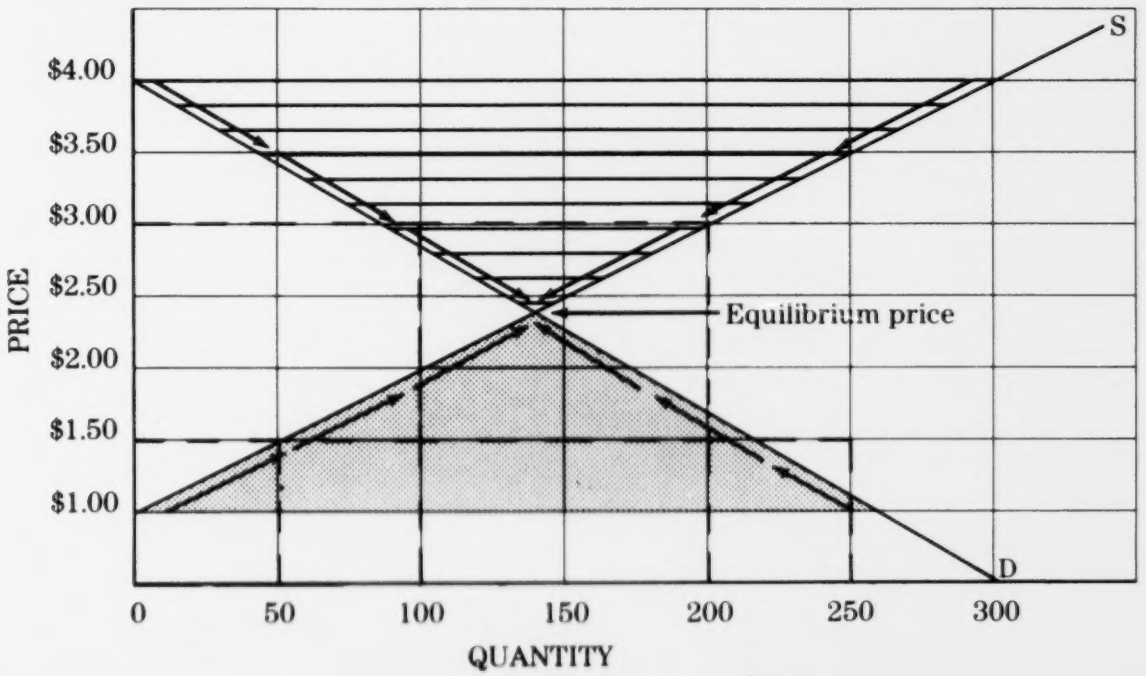
Consumers, on the other hand, would be delighted if Joe would sell his pizzas at $1.50 per frozen pizza. They would be willing to buy 250 frozen pizzas per month. The combined schedule would look something like the following. (See next page).

INFORMATION BASE (Cont.)

SUPPLY AND DEMAND SCHEDULE FOR FROZEN CHEESE PIZZA		
QUANTITY SUPPLIED PER MONTH	PRICE PER PIZZA	QUANTITY DEMANDED PER MONTH
300	$4.00	0
250	$3.50	50
200	$3.00	100
150	$2.50	150
100	$2.00	200
50	$1.50	250
0	$1.00	300

What this schedule shows very clearly is the *Law of Supply and Demand.* This law says that as the price increases, suppliers are willing to supply more. As the price decreases, consumers are willing to buy more.

The graph representing the combined supply and demand schedule would look like this:



INFORMATION BASE (Cont.)

What you see when you draw a supply and demand curve on a graph together is the fact that they intersect at one point. The point where they cross or intersect is known as the *equilibrium price* or market clearing price. Equilibrium is a word that means balance. The same is true of this price. It is the price where the seller will sell all that has been produced and the buyer will buy all that they want. Each will be satisfied. Looking at the other phrase — market clearing price — it is the price at which there will be no more of a product left and no more buyers wanting any. In our example the equilibrium price is $2.50 per frozen cheese pizza.

Now suppose that the price is other than in equilibrium. Suppose that Joe decides to increase the price of frozen cheese pizzas to $3.00. Looking on the graph we can see that at $3.00 the supply line indicates Joe would supply 200 frozen pizzas but consumers would only be willing to buy 100 pizzas (see dotted lines). Joe would end up with an over-supply of frozen pizzas that nobody was interested in buying. This oversupply is called a *surplus*. In fact the area above the equilibrium price but within the boundaries of the supply and demand lines is known as surplus. (see lined area)

Now suppose Joe realizes he is charging too much and needs to get rid of those overabundant frozen pizzas. He offers them for sale at $1.50 apiece. What happens now? Now if we draw our line from $1.50 across to the supply and demand lines, we see there is a greater demand than supply. Joe can supply 50, the demand is 250. This phenomenon is called *shortage*. Shortage means that customers are demanding more than the supplier has of a product. The dotted area below equilibrium is known as the surplus area. (see graph)

These shortages and surpluses have an effect on the price of a product. A surplus of some product tends to drive or push the price down. Just think about it — if there is too much of something, suppliers are willing to drop the price in order to sell. That is what Joe did to get rid of his pizzas. On the other hand, when demand exceeds supply, producers realize that their product is precious or rare. They feel they can ask more for this product and the result is to push the price upward. To visually understand this concept, look at the arrows on the graph. Effectively, the price is always being pushed toward equilibrium.

One last thought on supply and demand. Think of these graphs as photographs of a moment in time, remembering that the supply and demand for a product or service is changing over any specific period of time.

LESSON 8 — THE LAW OF SUPPLY AND DEMAND

DO YOU REMEMBER?

Based on the information you just read, identify the following statements as true or false and circle the correct word. Correct the false statements to make them true.

true / false 1. The interaction of buyers and sellers in the marketplace determines price.

true / false 2. When studying supply and demand together, everything you learned about when studying them separately must be discarded or forgotten.

true / false 3. When developing a graph to visually represent supply and demand, the horizontal line represents price and the vertical line, quantity.

true / false 4. The equilibrium price is the point where the supply and demand curves intersect on the graph.

true / false 5. The equilibrium price is the price where the seller will sell all that has been produced and the buyer will buy all they want.

true / false 6. Market clearing price is another name for surplus.

true / false 7. An overabundance of a product indicates that there is a greater supply than demand.

true / false 8. A shortage occurs when the demand is greater than the supply.

true / false 9. Shortages and surpluses have no effect on the price of a product.

true / false 10. Demand and supply curves show moments in time. In actuality, the supply and demand for a product change over time.

LESSON 8 — THE LAW OF SUPPLY AND DEMAND

UNDERSTANDING THE FACTS AND PRINCIPLES

In your own words, summarize the *Law of Supply and Demand.* Remember to use the following terms in your summary — *supply, demand, equilibrium price, shortage,* and *surplus.*

APPLYING AND ANALYZING THE PARTS

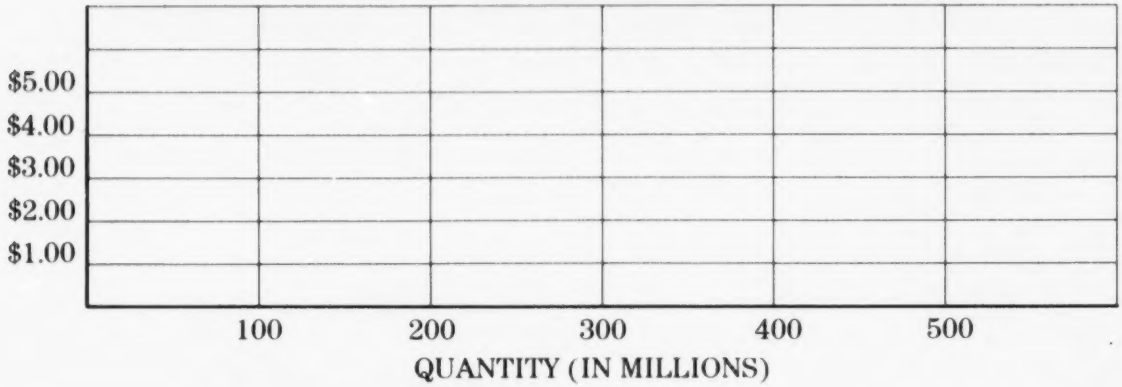
SUPPLY AND DEMAND SCHEDULE FOR J&B GOURMET POPCORN				
QUANTITY SUPPLIED PER YEAR	PRICE PER BAG	QUANTITY DEMANDED PER YEAR	EXCESS SUPPLY/DEMAND	PRESSURE ON PRICE
500 million	$5.00	100 million		
400 million	$4.00	200 million		
300 million	$3.00	300 million		
200 million	$2.00	400 million		
100 million	$1.00	500 million		

LESSON 8 — THE LAW OF SUPPLY AND DEMAND

APPLYING AND ANALYZING THE PARTS (Cont.)

Using the information given on the supply and demand schedule, draw a demand and supply curve, label the equilibrium price, identify the area of surplus and the area of shortage. Fill in the blank columns on the schedule.

SUPPLY AND DEMAND CURVE FOR J&B GOURMET POPCORN



DRAWING RELATIONSHIPS

Develop your own story of an example of supply and demand. Develop a supply and demand schedule, supply and demand graph. In your story design changes in price to cause shortages and surpluses. Somehow show or describe the effect on price.

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LESSON 8 — THE LAW OF SUPPLY AND DEMAND

LESSON 8 — THE LAW OF SUPPLY AND DEMAND

B239
Teacher's
Guide

ECONOSENSE

A COMMON SENSE APPROACH TO THE STUDY OF ECONOMICS

By Linda McPheron, Ph.D.
Instructor
St. Petersburg High School
Pinellas County, Florida

BEST COPY AVAILABLE

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To The Teacher

This economics workbook is designed as a student activity book. Each lesson addresses specific terms and concepts. These concepts are correlated to a specific student learning objective. Around each lesson objective evolves various student activities at different cognitive levels of learning.

As an instructor, you may choose to use any or all of the activities in a lesson. The decision will obviously depend on the individual or group needs of the students in your classroom.

The economic concepts used in this student activity workbook are those essential to any student who is developing a basic understanding of economics. Each lesson follows a specific format. The student is presented with a basic information core of material. Following each information base there are basic comprehension questions found in the section entitled, **Do You Remember?** Students should be encouraged to recall answers without referring to the **Information Base. Understanding Facts and Principles** allows the student the opportunity to give examples of or communicate an idea in a new and different form. Additionally, each lesson provides the student the challenge of analyzing economic elements and formulating new ideas through the headings, **Applying and Analyzing the Parts** and **Drawing Relationships.**

Lessons may be utilized as supplements to other sources of economic information, such as textbooks and/or computer programs. However, these lessons are also designed to stand alone.

ECONOSENSE ANSWER KEY

LESSON 1 — SCARCITY

DO YOU REMEMBER?

1. scarcity
2. unlimited, limited
3. scarce
4. nations
5. economic policy

UNDERSTANDING FACTS AND PRINCIPLES

answers will vary, but an example might be:

1. record albums
2. radio/cassette player
3. cassettes
4. save his money, wait until he has enough for the stereo component system
5. choose an item, like clothing; therefore using part of his money and saving the rest.

APPLYING AND ANALYZING PARTS

answers will vary, but an example might be

John chose to save his money and gave up the opportunity to purchase cassettes or a radio/cassette player. These items are his opportunity cost, because they are a loss to John.

DRAWING RELATIONSHIPS

answers will vary, but essential to this answer to allowing students to apply the concepts of scarcity, opportunity cost and choice to local issues.

LESSON 2 — RESOURCES OF PRODUCTION

DO YOU REMEMBER?

1. Resources
2. land, labor, capital, entrepreneurial skills, and technology.
3. natural resources
4. human input
5. capital
6. entrepreneurial skills
7. technology

UNDERSTANDING FACTS AND PRINCIPLES

1. Resource — trees
2. Labor — The United Auto Workers Union
3. Capital — typewriter
4. Entrepreneurial Skills — managing a bakery
5. Technology — a word processor

APPLYING AND ANALYZING PARTS

Research may be necessary to complete this exercise, but make sure in the answers that students have demonstrated their understanding of the concepts of land, labor, capital, entrepeneurial skills, and technology.

DRAWING RELATIONSHIPS

Answers will vary, but essential to this problem is the fact that students must use the factors or resources of production — all of them.

LESSON 3 — FREE ENTERPRISE

DO YOU REMEMBER?

1. demand, supply
2. Competition
3. Profit
4. reward
5. equality, opportunity, and justice
6. economic freedom
7. individuals
8. Efficiency
9. efficient
10. profit

UNDERSTANDING FACTS AND PRINCIPLES

1. answers will vary somewhat but all answers should indicate that with private ownership there is freedom of choice in decision making.
2. answers will vary somewhat but all answers should indicate individual ownership and address the goals of Capitalism which are opportunity, equality, and justice.
3. answers will vary, but some examples might be: advertising and quality of product which promotes word of mouth recommendations.
4. answers will vary, but some examples might be: electricity, telephone, and water services.
5. Answers will vary, but an example of an answer might be that one small group of people might make all consumer decisions for us and therefore limit our choices. Prices could be

set at any level these decision makers decide and we would have no control or say so about it.

APPLYING AND ANALYZING PARTS

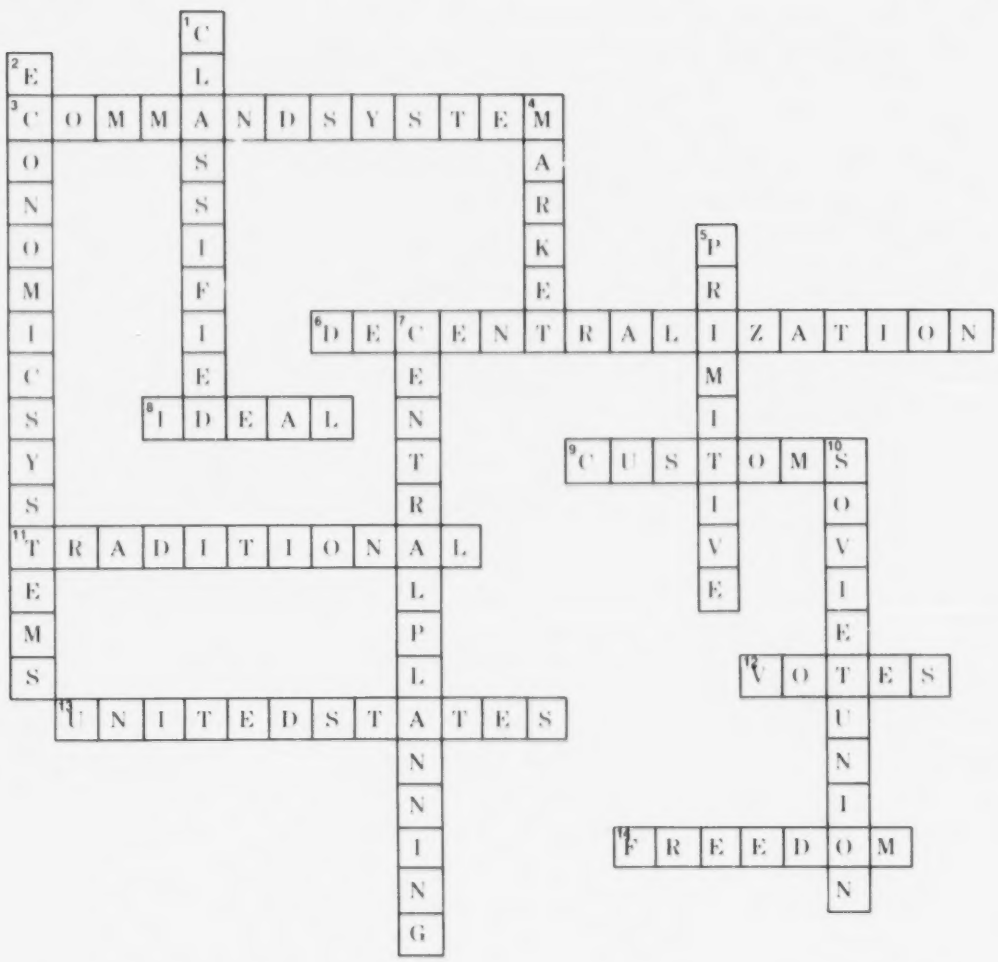
Answers will vary, but essential to all examples is clear evidence that the student can translate these elements into examples they understand. Examples of these elements are: profit, private ownership, economic freedom, economic efficiency, opportunity, and equality.

DRAWING RELATIONSHIPS

Answers will vary. Research will have to be done for students to gain an understanding of Communism, or as the teacher you might want to supply the information. Students should be able to see that these two economic systems are at opposite ends of a continuum. Students may also refer to lesson 4 and the description of a command economy.

LESSON 4 — TYPES OF ECONOMIC SYSTEMS

DO YOU REMEMBER?



UNDERSTANDING FACTS AND PRINCIPLES

CHARACTERISTICS OF ECONOMIC SYSTEMS

TYPE	CHARACTERISTICS	EXAMPLE
Traditional	Ruled by custom & tradition modern technology absent people fill specific roles changes causes difficulty	Ethiopia
Command	central planning government plans all aspects of economy few consumer choices or goods very little personal freedom in the economy	U.S.S.R.
Market	newest system; personal freedom decentralized planning; many consumer goods available	U.S.A.

APPLYING AND ANALYZING PARTS

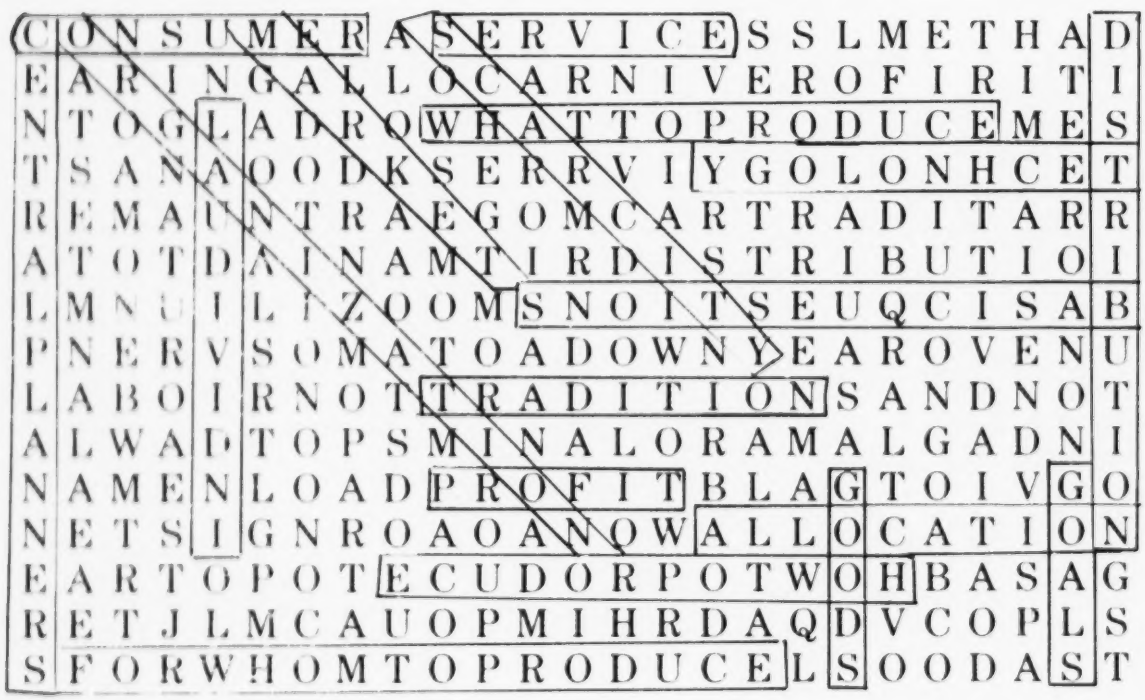
Answers will vary, but should refer to the different methods of decision making in the U.S. and U.S.S.R. This conclusion should be based on differences student has highlighted in the chart they developed in the preceding activity.

DRAWING RELATIONSHIPS

Answers will vary. Students should demonstrate their understanding of the relationship between economic systems and political systems.

LESSON 5 — THE BASIC ECONOMIC QUESTIONS

DO YOU REMEMBER?



UNDERSTANDING FACTS AND PRINCIPLES

Answers will vary, but students should demonstrate an understanding for how these three systems answer the basic economic questions.

APPLYING AND ANALYZING PARTS

	A					B			
	L				S	R			T
	B			C	W	G I			A
	A		U	H	E	R T			I
	N		S	I	D	E A			W
	I		S	N	E	A I		U	A
command	A		R	A	N	T N		S	N market

DRAWING RELATIONSHIPS

Answers will vary, but some examples might include any example of government regulations.

LESSON 6 — DEMAND

DO YOU REMEMBER?

1. c
2. b
3. b
4. d
5. d (quantity demanded changes)

UNDERSTANDING FACTS AND PRINCIPLES

1. a. 100 slices of pizza per day
   b. 150 slices of pizza per day
   c. 50 slices of pizza per day
2. The less expensive a slice of pizza the more people will be willing and able to buy.

DEMAND SCHEDULE FOR ICE CREAM CONES

Price per cone	Quantity bought per year
$1.50	3 million
$1.25	4 million
$1.00	5 million
$ .75	6 million
$ .50	7 million

APPLYING AND ANALYZING PARTS

1. The curve or line slopes downward to show that as price decreases, quantity demanded increases.
2. The demand curve is a visual representation of the demand schedule. By reading the demand schedule you determine where to plot the points. For instance, at 50¢ a slice (you find 50¢ on the vertical axis of the graph) 150 slices are bought per day; you then plot a point to the right of the 50¢ mark and directly above the 150 quantity mark on the horizontal axis.

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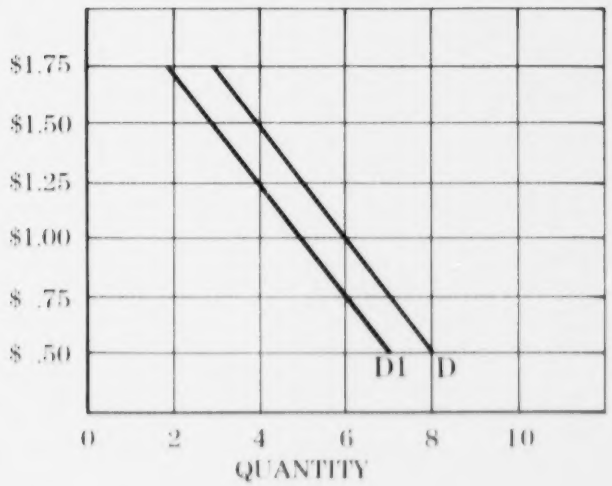
DRAWING RELATIONSHIPS

DEMAND SCHEDULE FOR BAGS OF POPCORN

Price per bag	Quantity bought per year
$1.75	3 million
$1.50	4 million
$1.25	5 million
$1.00	6 million
$ .75	7 million
$ .50	8 million

DEMAND CURVE



D1 indicates a decrease in demand due to a change in consumer preference.

LESSON 7 — SUPPLY

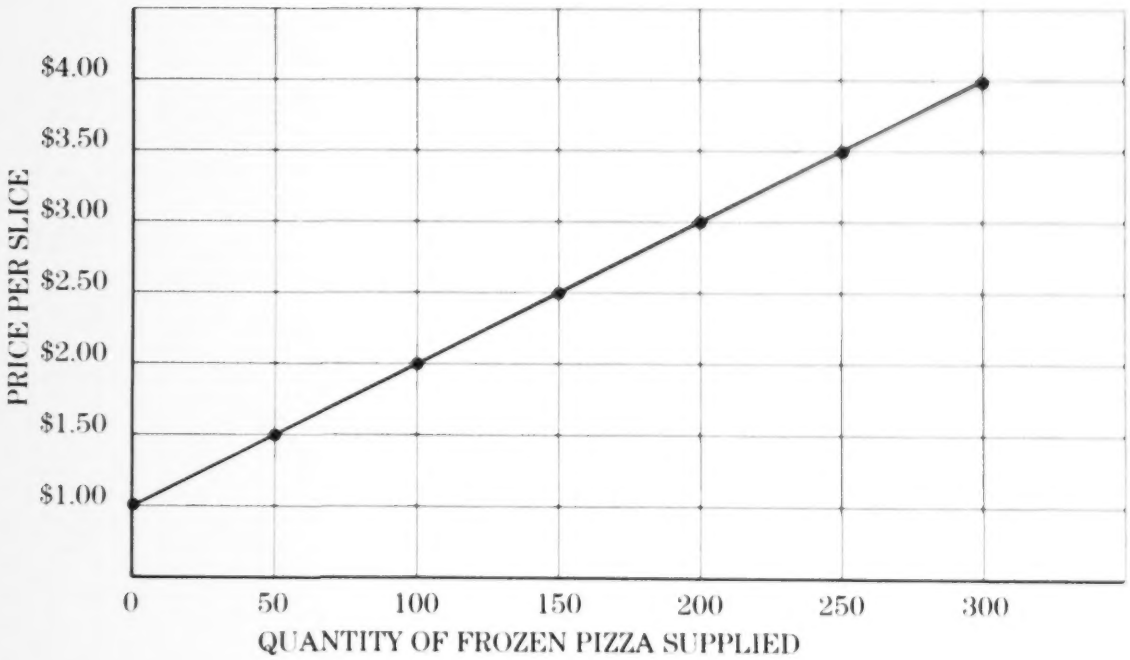
DO YOU REMEMBER?

1. less
2. law of supply, lower
3. price
4. supply
5. increase, decreased

UNDERSTANDING THE FACTS AND PRINCIPLES

1. a. 100 pizzas supplied per month
   b. 300 pizzas supplied per month
   c. 0 pizzas supplied per month
2. The higher the price the more the manufacturer or producer is willing to supply.

SUPPLY CURVE



DRAWING RELATIONSHIPS

1. CQS
2. CS
3. CS
4. CS
5. CQS

LESSON 8 — DEMAND AND SUPPLY

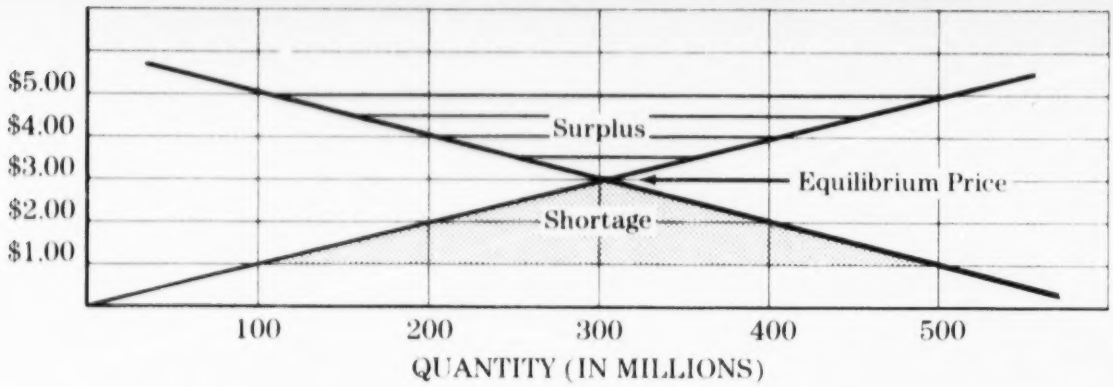
DO YOU REMEMBER?

1. true
2. false — when studying supply & demand together, all the same principles apply
3. false — horizontal line represents quantity, vertical line represents price
4. true
5. true
6. false — equilibrium price
7. true
8. true
9. false — eliminate the word "no"
10. true

UNDERSTANDING THE FACTS AND PRINCIPLES

Answers will vary, but make sure individual student summaries clearly demonstrate their understanding of the concepts supply, demand, equilibrium, price, shortage, and surplus.

SUPPLY AND DEMAND CURVE FOR J&B GOURMET POPCORN



EXCESS SUPPLY/DEMAND	PRESSURE ON PRICE
SUPPLY	PUSHES PRICE DOWN
SUPPLY	DOWN
EQUILIBRIUM	EQUILIBRIUM
SHORTAGE	UP
SHORTAGE	UP

DRAWING RELATIONSHIPS

Answers will vary, but students should demonstrate their understanding of the Law of Supply and Demand, equilibrium, shortage, and surplus. Their story must show their understanding of how supply and demand schedules and graphs are developed.

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